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REPORT

OF

THE AUDITOR-GENERAL

ON

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COMMITTEE	—
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NAROMORU WATER AND SANITATION COMPANY LIMITED

FOR THE YEAR ENDED 30 JUNE, 2020

NAROMORU WATER & SANITATION COMPANY,
P.O. Box 234 – 10105,
NAROMORU
Email: narowasco@gmail.com
MOBILE: 0723- 656-412

OFFICE OF THE AUDITOR GENERAL
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ANNUAL REPORT & FINANCIAL STATEMENTS FOR THE

YEAR ENDED 30TH JUNE, 2020

Prepared in accordance with the Accrual Basis of Accounting Method under the International Financial Reporting Standards (IFRS)

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KEY ENTITY INFORMATION

The Board of Directors present their report together with the audited financial statements for the year ended 30th June 2020 which disclose the state of affairs of the Company.

PRINCIPAL ACTIVITY

The principal activity of the Company is to provide Water and Sanitation Services to residents of Naromoru Town and its immediate environs in Nyeri County and lower parts of Lamuria Location in Tigithi Sub-Location in Laikipia County.

VISION, MISSION AND CORE VALUES

The Company has developed the vision and mission statements as well as core values which are outlined here below.

VISION OF NAROWASCO

The vision of Naromoru Water and Sanitation Company (NAROWASCO) reflects its main goals as follows:-

"To be the model Water Services Provider in Nyeri County and in Kenya''

MISSION OF NAROWASCO

The Mission of Naromoru Water and Sanitation Company (NAROWASCO) is inclined towards serving the expectations of the Company's stakeholders and is as shown below:

"To ensure provision of quality, affordable, Reliable and Sustainable Water and Sanitation Services by operating and maintaining Water and Sanitation facilities"

CORE VALUES

To achieve our mission and vision, the following core values are our guiding principles:

- Customer focus
- Accountability
- Transparency
- Integrity
- Commitment to teamwork
- Quality
- Innovative(Innovation)

REGISTERED OFFICE

Naromoru Town, Kanyua Building
P. O. Box 234-10105
Naromoru,
Nyeri County
KENYA.
E-mail: narowasco@gmail.com
Mobile : 0723656412

BANKERS

KCB Bank Ltd Naromoru Branch
P. O. BOX 393 -10105
Naromoru.
KENYA

AUDITORS

Auditor General
Office of the Auditor General
P.O. Box 30084 - 00100
Nairobi.
KENYA.

PRINCIPAL LEGAL ADVISOR

The Company Secretary
Gikuhi Kiana & Company
Kimathi Street, Kang'aru Annex Building
P.O Box 1271-10100
Nyeri.
KENYA

BOARD OF DIRECTORS

1. Mr. Lawrence Muchiri Kariuki - Chairman –re-elected on 15-01-2015
2. Rev. Francis Nderitu Wothaya - Director-elected on 15-05-2016
3. Mrs Naomi Waitherero Githinji - Director-elected on 15-05-2016
4. Ms. Rachael Wangui Muturi - Director-elected on 15-3-2019
5. Ms Pauline Ndegwa - Chief Officer (CO-Water Department)
6. Mr. Simon Ndirangu Gachunia - Appointed in 2018
7. Mr. Samuel Mbutu Mwaura - Elected on 15-01-2015
8. Mr. David Gitonga Ndirangu - Secretary to the Board of Directors

BOARD COMMITTEES

(I) FINANCE, ADMISTRATION AND HUMAN RESOURCES

- Mr Samuel Mbutu Mwaura - Chairperson
- Mrs Naomi Waitherero Githinji - Member
- Mr Simon Ndirangu Gachunia - Member

(II) RISK & AUDIT COMMITEE

- Rev. Francis Nderitu Wothaya - Chairperson
- Mrs Naomi Waitherero Githinji - Member
- Ms Rachael Wangui Muturi – Member

(III) TECHNICAL COMMITTEE

- Mrs Naomi Waitherero Githinji - Chairperson
- Ms Pauline W .Ndegwa - Member
- Rachael Wangui Muturi - Member

Details of Board Members:

No.		
1.		**Mr Lawrence Muchiri Kariuki:** Holds a Diploma in Animal Production in Egerton University and Diploma in Education from Kenya Technical Teacher's College. He has worked at St Monica Secondary school and is currently at Mureru Secondary school as Head of Department (Science)
2.		**Mr Mbutu Mwaura** Mbutu Mwaura is an Economist with Masters degree from University of Nairobi, Kenya (1998) and a Water and Sanitation Services Practitioner with International Executive Masters in Water Supply and Sanitation Services Management from AgroParisTech Institute, France (2018). He is currently pursuing (cleared course work and now on Thesis phase entitled 'Productivity analysis among Water Service Providers in Kenya') PhD in Economics at Kenyatta University, Kenya. He has over 20 years of professional work experience in both public and private sectors in the fields of policy analysis, planning, research, development finance and monitoring and evaluation. Mbutu Mwaura is currently, since 2008, the Corporate Planning, Monitoring and Evaluation Manager with Nairobi City Water and Sewerage Company Ltd. Previously, he worked with Fineline Systems and Management Consulting firm (1999 – 2002), Kenya Union of Savings and Credit Cooperatives (KUSCCO) Ltd. (2002 – 2003) and Kenya Institute for Public Policy, Research and Analysis (2004 – 2008). On governance and leadership facets, Mbutu Mwaura is the Chairman, Board of Management for St. Peters Kambura-ini Secondary School and a member of Board of Directors (and Chairman of Finance, Human Resources and Administration Committee and a member of Technical Committee) of Naromoru Water and Sanitation Company Ltd., both in Nyeri County, Kenya. He is also an Associate member of Kenya Institute of Management (KIM).He represents Professional Group Stakeholders in Narowasco
3.		**Revered Francis Wothaya Nderitu** Holds a Diploma in Bible and Theology from Machakos College of Theology. Currently, he is the Revered in-charge Africa Inland Church-Naromoru. He is the Chairman of Pastor's Fellowship in Naromoru.

4.		**Mrs Naomi Githinji** She is an "A" level holder at Star Sea High School. Holds a Diploma in Electrical Engineering at Kiambu Institute of Science and Technology. Currently, she is a businesswoman running an electrical workshop in Naromoru.
5.		**Ms Pauline W. Ndegwa** Holds Bachelor of Arts (Cultural Studies Moi University) 2003 work experience; Chief officer- Water and Irrigation Services 2019-2020 Chief Officer Governor's office 2018-2019 Chief Officer Public Service Management 2018 Sub County Admin 2015-2018 Ward Administrator 2014-2015 Project Director - Compassion International Kenya 2008- 2014 Social Worker - Compassion International Kenya 2006-2008 BOM Teacher Bingwa secondary school 2005-2006 BOM Teacher Witima Secondary school, Othaya 2003-2004
6.		**Mr Simon Ndirangu Gachunia** He holds a Masters of Arts in Internal Relations from United States International University (USIU). He has a Post Graduate Degree in Cross Cultural Communications and International Works from the Hald Internajionale Senter, Norway. Holds Bachelor of Education's Art (Mathematics and Business Studies) from Kenyatta University. He is the current chairman of Choice Microfinance Bank and B.O.M chairman of St. Gregory Karima Secondary School. He represents the Governor in the Board of NAROWASCO
7.		**Ms Rachael Wangui Muturi** Holds a Diploma in Farm Management from Egerton University, 2006. Has worked as a Divisional Environment and Land Management Officer in Kieni East and as an Agricultural officer in Kieni East Sub-County since 2010. She is currently serving as a Ward Agricultural in charge of Thegu River Ward. She represents women group in the Board of NAROWASCO.
8.		**Mr David Gitonga Ndirangu** Holds an A" level certificate from Mang'u High School , Diploma in Water Engineering from Kenya Polytechnic Nairobi, has worked in District Water .Engineer's Office in Nyeri in Planning and Design Section for 10 years, Divisional Water Officer in Othaya for 2 years, Development/Maintenance Superintendent in OMWASCO for 2 years ,District Water Officer Tharaka North for 1 year and Kieni East for 2Years .Currently he is the General Manager & Secretary to the Board of Directors of NAROWASCO

MANAGEMENT TEAM

	Mr David Gitonga Ndirangu: Holds an A" level certificate from Mang'u High School , Diploma in Water Engineering from Kenya Polytechnic Nairobi, has worked in District Water .Engineer's Office in Nyeri in Planning and Design Section for 10 years, Divisional Water Officer in Othaya for 2 years, Development/Maintenance Superintendent in OMWASCO for 2 years ,District Water Officer Tharaka North for 1 year and Kieni East for 2Years .Currently he is the General Manager & Secretary to the Board of Directors of NAROWASCO
	Mr Timothy Kabugi Wamae Holds Bachelor's degree BSC Water Resources Engineering from the University of Nairobi. Has worked in Meru Water Services (MEWAS) - Data analyst for 1 year, Othaya, Mukurweini Water and Sewerage (OMWASCO) for 5 years as an Area Manager. He is currently the Technical Services Manager for NAROWASCO
	Ms Gladys Njeri Warugongo Holds Bachelor's degree in Business Administration (Finance) from Kenya Methodist University She also holds a Professional Certificate in Certified Public Accountants (CPA) by KASNEB Has worked in Tetu Aberdare Water & Sanitation Company (TEAWASCO) as an Accountant Assistant for seven (7) years. She is currently the Commercial Manager and Head of Commercial Department for NAROWASCO

NAROMORU WATER AND SANITATION COMPANY LIMITED

CHAIRMAN'S REPORT

I am happy to report that 2019/2020 was a successful year for the company despite a very challenging operating environment.

Global Overview

According to 2020 Kenyan Economic Survey, the global economy experienced a decelerated growth of 2.9 per cent in 2019 compared to a 3.5per cent in 2018. This was attributed to continuous policy uncertainty, decline in global trade and domestic investment, and a slowdown in labour productivity. The deceleration in growth was recorded in both advanced economies and emerging markets and developing economies. This is collaborated by the latest United Nation's report that indicates that 2019 ended up having the slowest global economic expansion since the world financial crisis in 2008-2009, with growth trending down in virtually all major economies and slowing in all geographic areas except Africa. Gross Domestic Product (GDP) growth in Africa rose from 2.7% in 2018 to 2.9% in 2019 and is projected to reach 3.2% in 2020 and 3.5% in 2021. The broad based slowdown was accompanied by a sharp slowdown in International trade flows and global manufacturing activity. But the Economic outlook for Africa and economies in translation is clouded by relatively low commodity prices and protracted weaknesses in some large countries. Indeed, the world over negative impact of the Corona Virus Infectious Disease 2019 (COVID 19) makes the global economic outlook more worrying.

Globally, the inflation rate eased from 2.3 per cent in 2018 to 2.0 per cent in 2019, mainly attributed to decline in energy prices, reduction in world trade prices of food and agricultural raw materials and modest wage levels in most countries.

Sub-Sahara African and East African Community Regional Overviews

Real GDP in Sub-Saharan Africa decelerated to 3.1 per cent in 2019 compared to 3.3 per cent in 2018.Current account deficit widened to 4.0 per cent in 2019 compared to 2.5 per cent in 2018.This was due to trade shocks emanating from decline in oil prices which affected the oil producing countries in the region. The spread of Covid-19 pandemic to Sub-Saharan Africa coupled with continued deterioration in oil prices is expected to significantly affect growth in the region. As a result, real GDP in the region is expected to contract by 1.6 per cent in 2020, the lowest level of growth on record.

Real GDP in East African Community bloc contracted to 5.9 per cent in 2019 compared with 6.6 per cent in 2018.The deceleration in growth was recorded in all the countries in the bloc. Rwanda recorded the highest real GDP growth rate of 10.1 per cent in 2019 in the bloc supported by strong growth in the private sector and infrastructure.

Kenyan National Overview

Economic activities in the country remained vibrant in 2019 though the performance was slower relative to 2018.The real GDP was estimated to have expanded by 5.4 per cent in 2019 compared to a growth of 6.3 per cent in 2018. The growth was spread across all sectors of the economy but was more pronounced in service-oriented sectors. The slowed growth in 2019 was also reflected in other macro-economic indicators. For instance, the Nairobi Stock Exchange (NSE) 20-share index dropped to 2,654 points in 2019 from 2,801 in 2018.

The period under review was characterized by moderate build up in inflationary pressures that mainly emanated from increased food prices. Inflation rose from 4.7 per cent in 2018 to 5.2 per cent in 2019. During the review period, interest rates were largely favourable to economic activity in 2019 compared to 2018.

Water and Sanitation Subsector Overview

Access to safe water and sanitation is a human right. Governments are the duty bearers of the progressive realization of this right in their jurisdictions. Kenya, under Sustainable Development Goal 6, has committed itself to achieve by 2030 universal and equitable access to safe and affordable water for all; access to adequate and equitable sanitation and hygiene for all and an end to open defecation, paying special attention to the needs of women, girls and those in vulnerable situations. Against the above background, the 2018/2019 Water Service Regulatory Board (WASREB) *impact* report issue no.12 indicates improvement in water coverage from 57% to 59%, Sewerage Coverage from 16% to 17% and Sanitation Coverage from 80% to 81%. In this impact report series, NAROWASCO was the third most improved utility. The Company scored 104 points and was ranked in the third position among 23 small utilities (with less than 5,000 connections) and 17th position overall among 81 public utilities.

As is typical in depressed economies, disposable incomes in the whole world continued to decline resulting in reduced consumers spending. This greatly constrained our volumes and hindered growth in turnover during the year under review. However, despite the very difficult economic conditions, the, Company water billing reduced from Kshs **11,623,368** in 2018-2019 to Kshs **11,376,646** in 2019-2020.

The company will strive to provide a 24 hours Water and Sanitation Service and I believe this position shall be achieved in our expansion programmes.

Our effort to grow and improve as a company would not be possible without the leadership of our talented Board of Directors, County Government of Nyeri, Tana Water Works Development Agency, the Management, our esteemed customers, Sub County Water Officer- Kieni East and other potential development partners especially Water Sector Trust Fund (WSTF) who also deserve commendation for their hard work and loyalty.

The results presented in this report would not have been achieved without the support of the directors and for this I wish to thank my colleagues in the board.

On behalf of the board, I wish to record our gratitude to our consumers for their continued loyalty and support and to all our employees in the company for their hard work and dedication without which the results would not have been possible.

Lawrence Muchiri Kariuki
CHAIRMAN –NAROWASCO

GENERAL MANAGER'S REPORT

WATER SECTOR REFORMS

One of the main principles of the Water Act 2002 and Water Act 2016 was that Water and Sanitation Services were to be managed at the lowest level possible. In line with this principle the Ministry of Water, Natural Resources and Irrigation transferred the provision of Water and Sanitation Services to Water Services Boards with effect from July 2005. The Water Act 2002 stipulates that the Water Service Boards shall contract agents, known as Water Service Providers, (WSP) for provision of Water and Sanitation Services. Under the new constitutional dispensation and Water Act 2016, Water and Sanitation services are functions of the County Government. Therefore, Narowasco is an agent of County Government of Nyeri.

HISTORY AND LEGAL ESTABLISHMENT

In compliance with the above Water Sector Reforms Act, Naromoru residents registered Naromoru Water and Sanitation Company. The Company was incorporated under the Companies Act (Cap.486) and that the Company is limited by Guarantee on 30th July 2012 (Certificate of Incorporation for the Company No.CPR/2012/79833.) The Company's mandate is to be responsible for the provision of Water and Sanitation Services in Naromoru and its environs as mandated under Water Service Provision Agreement in accordance with section 113 of the Water Act 2002 by Tana Water Works Development Agency.

NAROWASCO as a Company has been given the responsibility to take charge of the Management of all the assets that were previously under the Management of both Ministry of Water and Irrigation and County Council of Nyeri. Over the years all the existing water systems handed over to the Company have passed their ultimate design period, and in the process they have been dilapidated and outlived their economic life. Hence, they need to be rehabilitated and augmented.

In order to be able to achieve sustainability there is need to develop and implement the infrastructure involving various components. However, these undertakings requires huge amount of money which is beyond the capability of the Company to generate internally, therefore demanding external funding.

In view of the above, the company is working closely with Nyeri County Government, Tana Water Works Development Agency, Water Sector Trust Fund and Sub County Water Office in developing capital works.

DEVELOPMENT PLANS

The Company has earmarked to undertake the following activities in our future development programmes.

- √ Improvement of water quality by completing a conventional treatment plant which is almost to completion
- √ Constructing of storage facilities/reservoirs including rehabilitation and augmentation of existing water systems.
- √ Water Catchment conservation and protection programme.
- √ Construction of office block.
- √ Construction of sewerage system for waste water disposal

PROJECT PROPOSAL

For the purpose of improving service delivery at the same time achieve sustainability there is an urgent need to augment the existing systems through development of the infrastructure by implementing the activities outlined in the company's project proposal document.

WATER CATCHMENT CONSERVATION

The company has joined hands with other stakeholders concerned in planting indigenous trees in the water Catchment area.

FINANCIAL STATUS.

In the financial year 2019/2020 the total turnover for water sales was **Kshs 11,376,646** and operating Surplus of **Kshs 186,232**.

STAFF

The company has 20 employees: - All are recruited by the Board of Directors. The company aims to develop policies to enable it recruit its own staff guided by the transfer plan. The ultimate goal is to make the company an enterprising entity. In this regard the company has in place Human Resource Policy and Procedure manual that includes health and safety, work injury benefits HIV/Aids awareness to enable staff deliver services.

GRATITUDE

I would like to take this opportunity to thank County Government of Nyeri, Tana Water Works Development Agent, Sub County Water Officer Kieni East Sub County, Water Sector Trust Fund and NAROWASCO Board of Directors for their support during the year, also our esteemed customers and our suppliers who were all instrumental to our success this year. I am also grateful to our staff for their commitment and effort in striving to ensure the company meets its objectives.

CONCLUSION

With the implementation of Vision 2030w there is great demand for water supply in all sectors contributing to economic development. This is a great opportunity for the company's bright future that depicts a company as a going concern. The company therefore, strives to meet the ever growing water service demand.

D.P. Gitonga Ndirangu
GENERAL MANAGER

CORPORATE GOVERNANCE STATEMENT

Naromoru Water and Sanitation Company limited is committed to operating under a clear governance framework and strongly adheres to sound management and control practices.
The Company is committed to ensuring compliance with the provisions of Water Act 2002 and Service Provision Agreement granted by Tana Water Works Development Agency among other regulatory and supervisory corporate governance requirements.
In ensuring that corporate governance is enhanced and that the power of Naromoru Water and Sanitation Company limited is exercised in the stewardship of the company total portfolio of assets and resources with the objective of maintaining stakeholder value, the Boards of Directors have constituted the following committees:

1. FINANCE, ADMINISTRATION AND HUMAN RESOURCES

The Finance, Administration, Human Resources Committee is the overseer of the financial management including reporting process and sourcing of funds for Company's capital works.
The Company makes cognizance of the fact that Human resources is one single asset in achieving the goals of the Company. It is the duty of the Finance and Administration Committee to ensure that the Company has the right staff, at the right place and doing the right thing. More so, the Committee ensures that staff welfare is guaranteed.
It ensures that there is adequate asset development, maintenance and infrastructure improvement to ensure sustainability of all water infrastructures.

2. RISK AND AUDIT COMMITTEE

In order to promote good corporate governance, NAROWASCO has constituted an Audit Committee for purposes of

- Safeguarding of the assets.
- Scope and effectiveness of the internal controls.
- Audit of the Annual financial statements.
- Compliance with all applicable regulatory requirements and accounting standards.

3. TECHNICAL COMMITTEE

In order to develop good and sound infrastructures, the Company has constituted a Technical Committee for purposes of: -

- Ensuring that the company's infrastructures meet the required standards and specifications.
- Ensuring that the Construction of company facilities meet the economic values.
- Ensuring that the company prepares viable proposals for funding by its development partners.

By order of the Board
For and on its behalf

…… **Date** ……

David Gitonga Ndirangu
GENERAL MANAGER
NAROMORU WATER AND SANITATION COMPANY

CORPORATE SOCIAL RESPONSIBILITY STATEMENT

Naromoru Water And Sanitation Company Ltd practices Corporate Social Responsibility within its area of jurisdiction. Consumer within its area of jurisdiction, the community in liaison with the office of the assistant chief has identified persons living with disabilities.
The company has connected such identified persons with water.
The work involves:-

1. Free cost of installation for metered service lines.
2. Free water consumption.
3. Free maintenance of such connections.
4. Offering attachments to Persons with Disabilities and others etc.

Due to COVID 19 pandemic, the Company managed to install 4no hand washing points within its area of jurisdiction which included, bus stage, mitumba market, food stuff market and the last one at Huruma area.

REPORT OF THE DIRECTORS

The Directors submit their report together with the audited financial statements for the year ended June 30, 2020 which show the state of the company affairs.

Principal activities

The principal activity of the Company is to provide Water and Sanitation Services to residents of Naromoru Town in Nyeri County and its immediate environs and lower parts of Lamuria Location in Tigithi Sub-Location in Laikipia County.

Results

The results of Naromoru Water and Sanitation Company for the year ended June 30, 2020 are set out on page 18-38

Directors

The members of the Board of Directors who served during the year are shown on page 4.

Dividends/Surplus remission

The company is limited by guarantee and does not pay dividends. Any surplus realised is ploughed back to finance capital expenditure.

Auditors

The Auditor General is responsible for the statutory audit of the company in accordance with Public Finance Management which empowers the Auditor General to appoint an auditor to audit on his behalf.

By Order of the Board

Company Secretary
Nyeri
Date 20/03/2021

STATEMENT OF BOARD OF DIRECTORS' RESPONSIBILITY

Section 81(i) of the Public Finance Management Act, 2012 and public Audit Act, require the Directors to prepare financial statements in respect of Public Institutions, which give a true and fair view of the state of affairs of the Company at the end of the financial year 2019-2020 and its operating results for that year 2019-2020. Thus the Naromoru Water and Sanitation Company Board of Directors are also required to ensure that the company, keeps proper accounting records which disclose with reasonable accuracy the financial position. The Directors are also responsible for safeguarding the assets of the company.

The Directors are responsible for the preparation and presentation of the Company's financial statements, which give a true and fair view of the state of affairs of the company for and as at the end of the financial year ended on June 30, 2020. This responsibility includes: (i) maintaining adequate financial management arrangements and ensuring that these continue to be effective throughout the reporting period; (ii) maintaining proper accounting records, which disclose with reasonable accuracy at any time the financial position of the company; (iii) designing, implementing and maintaining internal controls relevant to the preparation and fair presentation of the financial statements, and ensuring that they are free from material misstatements, whether due to error or fraud; (iv) safeguarding the assets of the company; (v) selecting and applying appropriate accounting policies; and (vi) making accounting estimates that are reasonable in the circumstances.

The Directors accept responsibility for the company financial statements, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgments and estimates, in conformity with International Financial Reporting Standards (IFRS), and in the manner required by the Public Finance Management (PFM) Act and the State Corporations Act. The Directors are of the opinion that the company *'s* financial statements give a true and fair view of the state of company *'s* transactions during the financial year ended June 30, 2020, and of the company *'s* financial position as at that date. The Directors further confirm the completeness of the accounting records maintained for the company, which have been relied upon in the preparation of the company *'s* financial statements as well as the adequacy of the systems of internal financial control.

Nothing has come to the attention of the Directors to indicate that the company will not remain a going concern for at least the next twelve months from the date of this statement.

Approval of the financial statements

Naromoru Water and Sanitation Company financial statements were approved by the Board on 25th September 2020 and signed on its behalf by:

BoD Chairman

General Manager

REPUBLIC OF KENYA

Telephone: +254-(20) 3214000
E-mail: info@oagkenya.go.ke
Website: www.oagkenya.go.ke

OFFICE OF THE AUDITOR-GENERAL
Enhancing Accountability

HEADQUARTERS
Anniversary Towers
Monrovia Street
P.O. Box 30084-00100
NAIROBI

REPORT OF THE AUDITOR-GENERAL ON NAROMORU WATER AND SANITATION COMPANY LIMITED FOR THE YEAR ENDED 30 JUNE, 2020

REPORT ON THE FINANCIAL STATEMENTS

Qualified Opinion

I have audited the accompanying financial statements of Naromoru Water and Sanitation Company Limited set out on pages 17 to 38, which comprise the statement of financial position as at 30 June, 2020, and the statement of comprehensive income, statement of changes in equity, statement of cash flows statement of comparison of budget and actual amounts, and a summary of significant accounting policies and other explanatory information in accordance with the provisions of Article 229 of the Constitution of Kenya and Section 35 of the Public Audit Act, 2015. I have obtained all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit.

In my opinion, except for the effect of the matters described in the Basis for Qualified Opinion section of my report, the financial position of the Naromoru Water and Sanitation Company Limited as at 30 June, 2020, and of its financial performance and its cash flows for the year then ended, in accordance with International Financial Reporting Standards, and comply with the Kenyan Companies Act, 2015 and the Public Finance Management Act, 2012

Basis for Qualified Opinion

1.0 Assets and Liabilities Handed Over and Capital Structure of the Company

As previously reported, the Company at its formation in 2012 was handed over assets and liabilities by the defunct County Council of Nyeri. However, a listing of creditors handed over indicating various assets and liabilities assumed by the Company at its formation were not made available for audit verification. Consequently, the value of assets and liabilities handed over to the Company could not be ascertained.

Further, the statement of affairs was not prepared to indicate the capital structure of the new entity at its formation. As a result, the statement of financial position as at 30 June, 2020 does not reflect any shares or the value of capital structure of the Company.

In the circumstances, the accuracy and completeness of the value of the assets held by the Company could not be ascertained

2.0 Inaccuracies in the Financial Statements - Property, Plant and Equipment

As disclosed in Note 14 to the financial statements, the statement of financial position reflects a balance of Kshs.25,592,188 in respect of property, plant and equipment as at 30 June, 2020. However, the balance includes an amount of Kshs.5,418,982 in respect of Work-in-Progress (WIP), which is however at variance with a balance of Kshs.8,146,460 reflected in the ledgers and the supporting schedule resulting to an unreconciled difference of Kshs.2,727,478. The property, plant and equipment recorded the assets register revealed that the said assets were neither tagged nor labelled for ease of identification, control and safety.

In the circumstances, the completeness and accuracy of the work-in-progress balance of Kshs.5,418,982 could not be confirmed.

3.0 Trade and Other Receivables

The statement of financial position reflects a balance of Kshs.2,351,247 in respect of trade receivables as at 30 June, 2020. According to a schedule on the aging analysis, the balance includes debtors totalling to Kshs.950,268 which had been outstanding for over 90 days as of 30 June, 2020. However, the Company did not include provision for bad and doubtful debts in the financial statements to cover these debts.

Consequently, recoverability in full of receivables balance of Kshs.2,351,247 as at 30 June, 2020 could not be confirmed.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of the Naromoru Water and Sanitation Company Limited Management in accordance with ISSAI 30 on Code of Ethics. I have fulfilled other ethical responsibilities in accordance with the ISSAI and in accordance with other ethical requirements applicable to performing audits of financial statements in Kenya. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my qualified opinion.

Key Audit Matters

Key audit matters are those matters that, in my professional judgment, are of most significance in the audit of the financial statements. There were no key audit matters to report in the year under review.

Other Matter

Unresolved Prior Year Issues

In the report of the previous year, several issues were raised under Report on the Financial statements and Report on Lawfulness and Effectiveness in Use of Public

Resources. However, although the Management has indicated that some of the issues have been resolved, the matters remained unresolved as the County Assembly has not deliberated on the audit report for 2018/2019.

Other Information

The Directors are responsible for the other information. The other information comprises the report of Directors as required by the Companies Act, 2015, and the statement of the Directors responsibilities which are obtained prior to the date of this report, and the annual report which is expected to be made available after that date.

My opinion on the financial statements does not cover the other information and I do not express an audit opinion or any form of assurance thereon.

In connection with the audit of the financial statements, my responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or the knowledge obtained in the audit, or otherwise appears to be materially misstated. Based on the work I have performed on the other information obtained prior to the date of this auditor's report, if I conclude that there is material misstatement of this other information, I am required to report that fact. I have nothing to report in this regard.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

As required by Article 229(6) of the Constitution, based on the audit procedures performed, except for the matter described in the Basis for Conclusion on Lawfulness and Effectiveness in Use of Public Resources section of my report, I confirm that, nothing else has come to my attention to cause me to believe that public resources have not been applied lawfully and in an effective way.

Basis for Conclusion

Excess Non-Revenue Water

During the financial year under review, the company produced 241,609 cubic meters (m^3) of water out of which only 170,918 cubic meters was billed to customers. The balance of 70,691 cubic meters (or approximately 29.26%) of the total volume of water produced represented unaccounted for water (UFW) which is over and above the allowable water loss of 25% as per the Water Service Regulatory Board guidelines. The UFW of 29.26% may have resulted in a 4.26% loss estimated at Kshs.3,328,628. The high level of UFW may adversely impact on the company's profitability and its sustainability of services.

In the circumstances, Management is in breach of the law.

The audit was conducted in accordance with ISSAI 4000. The standard requires that I comply with ethical requirements and plan and perform the audit to obtain assurance about whether the activities, financial transactions and information reflected in the financial statements are in compliance, in all material respects, with the authorities that govern them. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my conclusion.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

As required by Section 7(1)(a) of the Public Audit Act, 2015, based on the audit procedures performed, I confirm that, nothing has come to my attention to cause me to believe that internal controls, risk management and governance were not effective.

Basis for Conclusion

The audit was conducted in accordance with ISSAI 2315 and ISSAI 2330. The standards require that I plan and perform the audit to obtain assurance about whether effective processes and systems of internal control, risk management and governance were operating effectively, in all material respects. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my conclusion.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

As required by the Kenyan Companies Act, 2015 I report based on the audit, that:

(i) I have obtained all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of my audit;

(ii) In my opinion, proper accounting records have been kept by the Company, so far as appears from the examination of those records; and

(iii) The Company's financial statement are in agreement with the accounting records.

Responsibilities of Management and the Board of Directors

The Management are responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards and the requirements of the Kenyan Companies Act, and for maintaining effective internal control as the Management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error and for assessment of the effectiveness of internal control, risk management and governance.

In preparing the financial statements, the Management are responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless Management are aware of the intention to liquidate the Company or to cease operations.

The Management are also responsible for the submission of the financial statements to the Auditor-General in accordance with the provisions of Section 47 of the Public Audit Act, 2015.

In addition to the responsibility for the preparation and presentation of the financial statements described above, the Management are also responsible for ensuring that the activities, financial transactions and information reflected in the financial statements are in compliance with the authorities which govern them, and that public resources are applied in an effective way.

The Board of Directors is responsible for overseeing the Company's financial reporting process, reviewing the effectiveness of how Management monitors compliance with relevant legislative and regulatory requirements, ensuring that effective processes and systems are in place to address key roles and responsibilities in relation to governance and risk management, and ensuring the adequacy and effectiveness of the control environment.

Auditor-General's Responsibilities for the Audit

The audit objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion in accordance with the provisions of Section 48 of the Public Audit Act, 2015 and submit the audit report in compliance with Article 229(7) of the Constitution. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISSAIs will always detect a material misstatement and weakness when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

In addition to the audit of the financial statements, a compliance audit is planned and performed to express a conclusion about whether, in all material respects, the activities, financial transactions and information reflected in the financial statements are in compliance with the authorities that govern them and that public resources are applied in an effective way, in accordance with the provisions of Article 229(6) of the Constitution and submit the audit report in compliance with Article 229(7) of the Constitution.

Further, in planning and performing the audit of the financial statements and audit of compliance, I consider internal control in order to give an assurance on the effectiveness of internal controls, risk management and governance processes and systems in accordance with the provisions of Section 7(1)(a) of the Public Audit Act, 2015 and submit the audit report in compliance with Article 229(7) of the Constitution. My consideration of

the internal control would not necessarily disclose all matters in the internal control that might be material weaknesses under the ISSAIs. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

Because of its inherent limitations, internal control may not prevent or detect misstatements and instances of non-compliance. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies and procedures may deteriorate.

As part of an audit conducted in accordance with ISSAIs, I exercise professional judgement and maintain professional skepticism throughout the audit. I also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Management.

- Conclude on the appropriateness of the Management' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability of to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in the auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my audit report. However, future events or conditions may cause the Company to cease as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information and business activities of Company to express an opinion on the financial statements.

- Perform such other procedures as I consider necessary in the circumstances.

I communicate with the Management regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that are identified during the audit.

I also provide the Management with a statement that I have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on my independence, and where applicable, related safeguards.

CPA Nancy Gathungu, CBS
AUDITOR-GENERAL

Nairobi

08 February, 2022

STATEMENT OF COMPREHENSIVE INCOME

	NOTES	2019/2020	2018/2019
INCOME	3	**11,376,646**	**11,623,368**
OTHER INCOMES	3b	3,015,827	8,130,829
WSTF Grants (Subsidy)		1,087,156	5,440,680
Sub-Total		4,102,983	13,571,509
TOTAL		**15,479,629**	**25,194,877**
OPERATING EXPENSES			
Personnel & Administration Costs	4	9,501,358	9,712,048
Distribution, Operation & Maintenance Costs	5	5,706,329	14,640,799
Production Costs	6	10,967	131,300
Sub-Total		**15,218,654**	**24,484,147**
OPERATING SURPLUS		**260,975**	**710,730**
Finance Charges	7	74,743	57,520
SURPLUS BEFORE TAX		**186,232**	**653,210**
TAXATION			
NET SURPLUS		**186,232**	**653,210**

The notes set out on pages 28 to 38 form an integral part of these Financial Statements

STATEMENT OF FINANCIAL POSITION

DETAILS	NOTES	2019/2020	2018/2019
ASSETS			
NON-CURRENT ASSETS			
Property, Plant & Equipment	14	**25,592,188**	**22,803,620**
Intangible Asset (Software)	14b	0	191,048
		25,592,188	**22,994,668**
CURRENT ASSETS			
Trade Receivables	8	2,360,177	2,106,298
Cash & Bank Balances	9	1,854,961	4,974,734
Inventories		610,445	
TOTAL CURRENT ASSETS		**4,825,583**	**7,081,032**
TOTAL ASSETS		**30,417,771**	**30,075,700**
EQUITY AND LIABILITIES			
Retained Earnings	10	**6,732,727**	**4,082,821**
NON-CURRENT LIABILITES			
Deferred Income	12.a	17,245,713	19,709,388
EQUITY AND LIABILITIES		**23,978,440**	**23,792,209**
CURRENT LIABILITIES			
Trade Payable	11.a	2,185,657	1,905,864
Consumer Deposits	11.b	1,790,000	1,562,000
Deferred Income	12.b	2,463,674	2,815,627
TOTAL CURRENT LIABILITY		**6,439,331**	**6,283,491**
TOTAL EQUITY AND LIABILITIES		**30,417,771**	**30,075,700**

The Financial Statements set out on pages 17 to 38 were signed on behalf of the Board of Directors on 23/3/2021

General Manager..... BOD Chairman.....

STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 30TH JUNE, 2020

STATEMENT OF CHANGES IN EQUITY	
2018/2019	
DETAILS	**RETAINED EARNINGS Kshs**
Surplus b/f 1/7/2018	**613,984**
Surplus for the year	653,210
Amortisation of Grants	2,815,627
Balance C/F 30/6/2019	**4,082,821**

2019/2020	
DETAILS	**RETAINED EARNINGS Kshs**
Surplus b/f 1/7/2019	4,082,821
Surplus for the year	186,232
Amortisation of Grants	2,463,674
Balance C/F 30/6/2020	**6,732,727**

STATEMENT OF CASH FLOWS

CASH FLOW FROM OPERATING ACTIVITIES

	NOTES	2019/2020	2018/2019
Net surplus for the year		186,232	653,210
Adjustment for depreciation & Amortization		2,900,415	3,474,605
Operating surplus before		**3,086,647**	**4,127,815**
working capital adjustments			
Increase/(Decrease in receivables)		-253,879	-211,692
Increase/Decrease in payable	8	279,793	360,722
Deposits	10.b	228,000	299,000
Increase (Decrease) in differed liability	12	7,933,600	9,968,299
Increase in Inventory		-610,445	
Prior year Adjustments		**0**	0
Total working Capital Adjustments		**7,577,069**	**10,416,329**
Net cash generated from operating activities		**10,663,716**	**14,544,144**
CASH FLOW FROM INVESTING ACTIVITIES			
Purchase of property, plant& equipment		-270,000	-878,328
Interest earned			
Grants(WSTF)		-5,418,982	-9,982,491
CASH FLOW FROM FINANCING ACTIVITIES			
Net increase in cash and cash equivalents		4,974,734	3,683,325
Cash and cash equivalents at the beginning of the year		1,851,801	1,291,409
Cash and cash equivalents at the end of the year	9	**6,826,535**	**4,974,734**

STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNTS

	Original budget	Adjustments	Final budget	Actual on comparable basis	Performance difference
	2019-2020	2019-2020	2019-2020	2019-2020	2019-2020
Revenue	**Kshs**	**Kshs**	**Kshs**	**Kshs**	**Kshs**
Income	15,215,447	-	15,215,447	15,479,629	264,182
Other Income	0	-	0	0	0
Total income	**15,215,447**	**-**	**15,215,447**	**15,479,629**	264,182
Expenses					
Personnel & Administration Costs	11,931,400	-	11,861,400	9,501,358	(2,430,042)
Distribution, Operation & Maintenance Costs	2,824,047	-	2,824,047	5,706,329	2,882,282
WSTF Grant	0	-	0	0	0
Production Costs	430,000	-	430,000	10,967	419,033
Finance Costs	100,000	-	100,000	74,743	25,257
Total expenditure	**15,215,447**	**-**	**15,215,447**	**15,293,397**	3,207
Surplus for the period	**0**		**0**	**186,232**	

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

1. ACCOUNTING POLICIES

a) BASIS OF PREPARATION

The financial statements have been prepared on a historical cost basis except for the measurement at re-valued amounts of certain items of property, plant and equipment, marketable securities and financial instruments at fair value, impaired assets at their estimated recoverable amounts and actuarially determined liabilities at their present value. The preparation of financial statements in conformity with International Financial Reporting Standards (IFRS) allows the use of estimates and assumptions. It also requires management to exercise judgment in the process of applying the Company's accounting policies.

The financial statements have been prepared and presented in Kenya Shillings, which is the functional and reporting currency of the Company.

The financial statements have been prepared in accordance with the PFM Act, the State Corporations Act, and International Financial Reporting Standards (IFRS). The accounting policies adopted have been consistently applied to all the years presented.

b) REVENUE RECOGNITION

i) **Revenue from the provision of water** is recognized in the year in which Naromoru Water and Sanitation Company provides water in which customers accepted the commodity and pays for the services provided.

ii) **Grants** from Government are recognized in the year in which Naromoru Water and Sanitation Company receives such grants.

iii) **Other income** is recognized as it accrues

c) PROPERTY PLANT AND EQUIPMENT

Property Plant and Equipment are stated at cost less the depreciation charged.

d) DEPRECIATION

Depreciation is charged on reducing balance method using the following rates

Pipes	12.5%
Telephone & computers	30%
Office furniture & equipment	12.5%
Plant and Equipment	12.5%
Motor bikes and vehicles	25%

A full year's depreciation charge is recognized both in the year of asset purchase and in the year of asset disposal.

Depreciation and impairment of property, plant and equipment

Items of property, plant and equipment are reviewed annually for impairment. Where the carrying amount of an asset is assessed as greater than its estimated recoverable amount, an

impairment loss is recognized so that the asset is written down immediately to its estimated recoverable amount.

e) AMORTIZATION AND IMPAIRMENT OF INTANGIBLE ASSETS

Amortization is calculated on the straight-line basis over the estimated useful life of computer software of three years at a rate of 33.3%

All computer software is reviewed annually for impairment. Where the carrying amount of an intangible asset is assessed as greater than its estimated recoverable amount, an impairment loss is recognized so that the asset is written down immediately to its estimated recoverable amount.

f) INVENTORIES

Inventories are valued at the lower of cost and net realizable value.

g) SURPLUS

The company being limited by Guarantee does not pay dividends and its surplus is ploughed back to finance company activities.

The revaluation reserve relates to the revaluation of certain items of property, plant and equipment. As indicated in the Statement of Changes in Equity, this is stated after transfer of excess depreciation net of related deferred tax to retained earnings. Revaluation surpluses are not distributable.

h) TRADE RECEIVABLES

They are recognized and carried at the realizable value

i) Cash and Bank balances	**2019-2020**	**2018-2019**
Cash at bank	1,854,961	4,974,734
Cash in hand	nil	nil
	1,854,961	**4,974,734**

These were the closing balances as the company closed the year.

j) Related party disclosure

Companies and other parties related to the company include those parties who have ability to exercise control or exercise significant influence over its operating and financial decisions. Related parties include management personnel, their associates and close family members.

The group is related to

i. County Government of Nyeri
Ksh.0
ii. Tana Water Services Board
Ksh.566,541
iii. WRA
Ksh.141,981
iv. WASREB
v. Ksh.260,608
vi. Key management
Ksh.0
vii. Board of directors
Ksh.0

2. ADOPTION OF NEW AND REVISED STANDARDS

i. Relevant new standards and amendments to published standards effective for the year ended 30 June 2019

Standard	Impact
IPSAS 39: Employee Benefits	**Applicable: 1st January 2018** The objective to issue IPSAS 39 was to create convergence to changes in IAS 19 Employee benefits. The IPSASB needed to create convergence of IPSAS 25 to the amendments done to IAS 19. The main objective is to ensure accurate information relating to pension liabilities arising from the defined benefit scheme by doing away with the corridor approach.

ii. New and amended standards and interpretations in issue but not yet effective in the year ended 30 June 2017

Standard	Effective date and impact:
IPSAS 40: Public Sector Combinations	**Applicable: 1st January 2019:** The standard covers public sector combinations arising from exchange transactions in which case they are treated similarly with IFRS 3(applicable to acquisitions only) Business combinations and combinations arising from non-exchange transactions which are covered purely under Public Sector combinations as amalgamations.

Application of new and revised International Financial Reporting Standards (IFRSs)

Relevant new standards and amendments to published standards effective for the year ended 30 June 2017

The following new and revised IFRSs were effective in the current year and had no material impact on the amounts reported in these financial statements.

Amendments to IAS 32 Offsetting Financial Assets and Financial Liabilities	The amendments to IAS 32 clarify the requirements relating to the offset of financial assets and financial liabilities. Specifically, the amendments clarify the meaning of 'currently has a legally enforceable right of set-off' and 'simultaneous realisation and settlement'. The amendments require retrospective application. The application of the new standard has not had any impact on the disclosures or the amounts recognised in these financial statements as the Group does not have any offsetting arrangements

Amendments to IAS 36 Recoverable Amount Disclosures for Non-Financial Assets	The amendments to IAS 36 remove the requirement to disclose the recoverable amount of a cash-generating unit (CGU) to which goodwill or other intangible assets with indefinite useful lives had been allocated when there has been no impairment or reversal of impairment of the related CGU. Furthermore, the amendments introduce additional disclosure requirements applicable to when the recoverable amount of an asset or a CGU is measured at fair value less costs of disposal. These new disclosures include the fair value hierarchy, key assumptions and valuation techniques used which are in line with the disclosure required by IFRS 13 Fair Value Measurements. The amendments require retrospective application The application of the new standard has not had any impact on the disclosures or the amounts recognized in these financial statements as the Group does not have any goodwill or other intangible assets with indefinite useful lives
Amendments to IAS 39 Novation of Derivatives and Continuation of Hedge Accounting	The amendments to IAS 39 provide relief from the requirement to discontinue hedge accounting when a derivative designated as a hedging instrument is novated under certain circumstances. The amendments also clarify that any change to the fair value of the derivative designated as a hedging instrument arising from the novation should be included in the assessment and measurement of hedge effectiveness. The amendments require retrospective application. The application of the new standard has not had any impact on the disclosures or the amounts recognised in these financial statements as the Group does not have any derivatives.
Amendments to IFRS 10, IFRS 12 and IAS 27 Investment Entities	The amendments to IFRS 10 define an investment entity and introduce an exception from the requirement to consolidate subsidiaries for an investment entity. In terms of the exception, an investment entity is required to measure its interests in subsidiaries at fair value through profit or loss. The exception does not apply to subsidiaries of investment entities that provide services that relate to the investment entity's investment activities. To qualify as an investment entity, certain criteria have to be met. Specifically, an entity is an investment entity when it: • obtains funds from one or more investors for the purpose of providing them with investment management services; • commits to its investor(s) that its business purpose is to invest funds solely for returns from capital appreciation, investment income, or both; and • measures and evaluates performance of substantially all of its investments on a fair value basis. Consequential amendments to IFRS 12 and IAS 27 have been made to introduce new disclosure requirements for investment entities. The application of the new standard has resulted in more extensive disclosures in the consolidated financial statements.

IFRIC 21 Levies — IFRIC 21 addresses the issue of when to recognise a liability to pay a levy. The Interpretation defines a levy, and specifies that the obligating event that gives rise to the liability is the activity that triggers the payment of the levy, as identified by legislation. The Interpretation provides guidance on how different levy arrangements should be accounted for, in particular, it clarifies that neither economic compulsion nor the going concern basis of financial statements preparation implies that an entity has a present obligation to pay a levy that will be triggered by operating in a future period. IFRIC 21 requires retrospective application.

The application of the new standard has not had any impact on the disclosures or the amounts recognized in these financial statements as the Group did not have any levies accounted for as a liability

(ii) New and amended standards and interpretations in issue but not yet effective in the year ended 30 June 2016

New and Amendments to standards	*Effective for annual periods beginning on or after*
IFRS 9	1 January 2018
IFRS 14	1 January 2016
IFRS 15	1 January 2017
Amendments to IAS 16 and IAS 38	1 January 2016
Amendments to IFRS 11	1 January 2016

The directors of the company do not anticipate that the application of the standard will have a significant impact on the company's financial statements

(iii) Early adoption of standards

The company did not early-adopt any new or amended standards in 2015.

CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the process of applying the company's accounting policies, which are described in note 1, the directors are required to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an on-going basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

The key areas of judgment in applying the entities accounting policies are dealt with below:

(a) Critical judgements in applying accounting policies

There are no critical judgments, apart from those involving estimations (see b below), that the directors have made in the process of applying the company's accounting policies and that have the most significant effect on the amounts recognized in financial statements.

(b) Key sources of estimation uncertainty

Impairment losses

At the end of each reporting period, the company reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss.

If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss. Where it is not possible to estimate the recoverable amount of an individual asset, the company estimates the recoverable amount of the cash generating unit to which the asset belongs.

Property, plant, equipment and intangible assets

Critical estimates are made by the directors in determining depreciation rates for property, plant, equipment and intangible assets.

Contingent liabilities

As disclosed in note 21 to these financial statements, the company is exposed to various contingent liabilities in the normal course of business including a number of legal cases. The directors evaluate the status of these exposures on a regular basis to assess the probability of the company incurring related liabilities. However, provisions are only made in the financial statements where, based on the directors' evaluation, a present obligation has been established.

Taxes

The company is subjected to numerous taxes and levies by various government and quasi-government regulations bodies. As a rule of thumb, the company recognizes liabilities for the anticipated tax/levies payable with utmost care and diligence. However, significant judgment is usually required in the interpretation and applicability of those taxes/levies. Should it come to the attention of managements in one way or other, that the initially recorded liability was erroneous, such differences will impact on the income and liabilities in the period in which such differences are determined.

EXPLANATORY NOTES TO FINANCIAL STATEMENTS

		2019/2020	2018/2019
3	**INCOME**		
	Billing for the year	11,376,646	11,623,368
		11,376,646	**11,623,368**
3b	**OTHER INCOMES**		
	New connection fee	200,200	223,900
	G.O.K Salary Grants 2018/2019	0	592,200
	Deferred income	2,815,627	3,217,859
	WSTF Grants(UBSUP Subsidy)	1,087,156	5,440,680
	County Government Grant (Pipes)	0	4,096,870
	Sub Total	**4,102,983**	**13,571,509**
	TOTAL	**15,479,629**	**25,194,877**
4	**PERSONNEL AND ADMINISTRATION COSTS**		
4a	**PERSONNEL**		
	Salaries	5,408,520	4,257,600
	Wages	267,150	839,750
	G.O.K Grants 2018/2019	0	592,200
	Sub Total	**5,675,670**	**5,689,550**
4b	**OFFICE ADMINISTRATION EXPENSES**		
	Printing & Stationary	79,505	106,339
	Office expenses	82,270	106,962
	Office rent	660,000	660,000
	Telephone	165,558	109,523
	Postage	7,725	7,725
	Internet Connection	23,498	0
	Travelling & Subsistence	515,420	505,840
	Training of staff	0	118,500
	Training of BoD	442,041	200,600
	Conference meeting	126,000	76,100
	Development of Strategic Plan	0	310,050
	Corporate Governance	55,000	449,720
	Electricity	8,445	5,905
	Computer & Copier expenses	97,650	143,400
	Maintenance of Computer Software	0	52,000
	Advertisement	20,000	19,488
	Corporate Social Responsibility	45,480	0
	Library Expenses	14,820	0
	Sub Total	**2,343,412**	**2,872,152**
4c	**PROFESSIONAL CHARGES**		
	9% T.W.S.B	0	135,000
	1%Wasreb	104,995	155,612
	Land Rent	50,100	50,100
	Directors Allowances	215,000	223,500

WARMA	25,000	89,013
Increase in AGM provision	0	0
Provision in Audit	580,000	116,000
Provision in AGM	150,000	150,000
Provision for Stakeholder's forum	150,000	150,000
Professional charges	185,181	45,121
WRUA	22,000	36,000
Sub Total	**1,482,276**	**1,150,346**
TOTAL	**9,501,358**	**9,712,048**

NOTES TO THE FINANCIAL STATEMENTS (continued)

		2019/2020	2018/2019
5.	**DISTRIBUTION, OPERATION & MAINTENANCE COSTS**		
	Motor Bike Repair	48,400	101,300
	Pipes & Fittings	644,290	758,730
	General Maintenance	329,169	280,542
	Office Maintenance	14,470	0
	Depreciation	2,900,415	3,283,341
	Amortization of software	0	190,476
	Fuel & Oil	117,100	82,871
	Improvement of water supply	293,003	298,046
	Maintenance of small lines	272,326	107,155
	WSTF Grants	1,087,156	0
	Sub Totals	**5,706,329**	**5,102,461**
6.	**PRODUCTION COSTS**		
	Chemicals	0	-
	Uniforms & Occupation Safety Health	10,967	131,300
	Sub Totals	**10,967**	**131,300**
7.	**Finance Charges**	74,743	57,520
	Sub Totals	**74,743**	**57,520**

NOTES TO THE FINANCIAL STATEMENTS (continued)

		2019/2020	2018/2019
8	**TRADE RECEIVABLES**		
	Customer Unpaid Bills	2,360,177	2,106,298
	Total	**2,360,177**	**2,106,298**
9	**CASH EQUIVALENT**		
	Current Account	143,504	80,640
	Expenditure a/c	3,160	3,160
	Savings Account	376,562	349,123
	WSTF	1,331,735	4,541,811
	Total	**1,854,961**	**4,974,734**
10	**RETAINED EARNINGS**		
	Reserves	4,082,821	613,984
	Surplus for the Period	186,232	653,210
		2,463,674	
	Other reserves/prior		2,815,627
	Total	**6,732,727**	**4,082,821**
11	**PAYABLES**		
	Trade Payables and other Payables		
	Pipe fittings	68,890	333,375
	Water Meters	183,600	-
	PAYE	24,167	42,232
	Company Secretary	140,600	185,181
	Printing & Stationery	74,120	28,190
	Computer & Printer Accessories	59,050	-
	10% TWSB	566,541	566,541
	Provision in Audit & AGM	580,000	464,000
	Land Rate & Rents	50,100	50,100
	WASREB	260,608	123,232
	WRUA	36,000	24,000
	WRA	141,981	89,013
	Total	**2,185,657**	**1,905,864**
11a	Consumer Deposits		
	Bal B/F	1,562,000	1,263,000
	Additions	228,000	299,000
	Total	**1,790,000**	**1,562,000**
12	**DEFERRED LIABILITY GRANTS (WSTF)**		
	Bal B/f	22,525,015	25,742,874
	Grant 7th UPC		
	Additions		
	Amortizations 6th UPC	(2,815,627)	(3,217,859)
	WIP		
	Bal C/d	**19,709,388**	**22,525,015**

13. Amortization schedule

Item	Depreciation Rate	Amount	Depreciation Amount
Pipeline extension &Meter (Deferred Liability)	12.5%	22,525,015	2,815,627
Total Amortization			**2,815,627**

14. PROPERTY, PLANT AND EQUIPMENT

DETAILS	PIPES	TELEPHONE & COMPUTERS	OFFICE FURNITURES & EQUIPMENTS	PLANT & MACHINERY	WIP	TOTAL
FY 2018-2019						
Depreciation Rate	**12.50%**	**30.00%**	**12.50%**	**12.50%**		
Opening Bal At Cost 1/7/2018	29,815,342	330,248	17,590	3,424,700	0	**33,587,880**
Additions	839,328	0	39,000	0		**878,328**
Closing Bal As At 30/6/2019	**30,654,670**	**330,248**	**56,590**	**3,424,700**	**0**	**34,466,208**
DEPRECIATION						
Opening Bal As 1/7/2018	7,467,900	197,905	9,696	702,958	0	**8,378,459**
Period Charge	2,898,346	39,703	5,862	340,218	0	3,284,129
Total Depreciation	**10,366,246**	**237,608**	**15,558**	**1,043,176**	**0**	**11,662,588**
N B V As At 30/6/2019	**20,288,424**	**92,640**	**41,032**	**2,381,524**	**0**	**22,803,620**
N B V As At 30/6/2018	**22,347,442**	**132,343**	**7,894**	**2,721,742**	**0**	**25,209,421**
FY 2019-2020						
Opening Bal At Cost 1/7/2019	**30,654,670**	**330,248**	**56,590**	**3,424,700**	**0**	**34,466,208**
Additions	0	0	0	270,000	5,418,982	5,688,982
Closing Bal As At 30/6/2020	**30,654,670**	**330,248**	**56,590**	**3,694,700**	**5,418,982**	**40,155,190**
DEPRECIATION						
Opening Bal As 1/7/2019	10,366,246	237,608	15,558	1,043,176	0	11,662,588
Period Charge	2,536,053	27,792	5,129	331,441	0	2,900,415
Total Depreciation	**12,902,299**	**265,400**	**20,687**	**1,374,617**	**0**	**14,563,003**
N B V As At 30/6/2020	**17,752,371**	**64,848**	**35,903**	**2,320,084**	**5,418,982**	**25,592,188**
N B V As At 30/6/2019	**20,288,424**	**92,640**	**41,032**	**2,381,524**	**0**	**22,803,620**

15. COMPUTATION OF TAX

Profit before tax	260,975
Add depreciation	2,900,415
Less differed income	(2,815,627)
Subtotal	**345,763**
Less wear & tear	(2,900,415)
Total	**(2,554,652)**
Loss brought forward	(8,057,914)
Loss carried forward	**(10,612,566)**

16. INCORPORATION

The company is a limited company by guarantee and established under company's act cap 486 and licensed by Tana Water Works

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17. FINANCIAL INSTRUMENTS

Capital risk management

The company manages its capital to ensure that it will be able to continue as a going concern while maximizing the return to stakeholders through the optimization of the debt and equity balance. The company's overall strategy remains unchanged from 2014.

Significant accounting policies

Details of the significant accounting policies and methods adopted, including the criteria for recognition, the basis of measurement and the basis on which income and expenses are recognized, in respect of each class of financial asset, financial liability and equity instrument are disclosed in note 1 to the financial statements.

Categories of financial instruments

Financial assets

Financial liabilities

Financial risk management objectives

The company's activities expose it to a variety of financial risks including credit and liquidity risks, effects of changes in foreign currency and interest rates and changes in market prices of the company's services. The company's overall risk management programme focuses on unpredictability of changes in the business environment and seeks to minimize the potential adverse effect of such risks on its performance by setting acceptable levels of risk. The company does not hedge any risks and has in place policies to ensure that credit is extended to customers with an established credit history.

Interest rate risk management

The company has reduced its exposure to interest rate risk as the entity borrows from its parent company in the short term at fixed interest rates.

Credit risk management

Credit risk refers to the risk that customers will default on its contractual obligations resulting in financial loss to the company.

The company's credit risk is primarily attributable to its trade receivables. The amounts presented in the statement of financial position are net of allowances for doubtful receivables, estimated by the company's management based on the group policy of providing for debts that are over ten months old.

The credit risk on trade receivables is limited because the customers are known customers with high credit ratings.

The credit risk on liquid funds with financial institutions is also low, because the counter parties are banks with high credit-ratings.

The customers under the fully performing category are paying their debts as they continue trading. The default rate is low.
The debt that is overdue is not impaired and continues to be paid.
The debt that is impaired has been fully provided for.

Liquidity risk management

Ultimate responsibility for liquidity risk management rests with the board of directors, which has built an appropriate liquidity risk management framework for the management of the company's short and medium-term funding and liquidity management requirements. The company manages liquidity risk by maintaining banking facilities through continuous monitoring of forecast and actual cash flows. The company can also borrow from its ultimate parent company in the short term further reducing its liquidity risk.

APPENDIX I: PROJECTS IMPLEMENTED BY THE COMPANY

Projects

Projects implemented by the State Corporation/ SAGA Funded by development partners

Project title	Project Number	Donor	Period/ duration	Donor commitment	Separate donor reporting required as per the donor agreement (Yes/No)	Consolidated in these financial statements (Yes/No)
Naromoru Household Sanitation Project	01HS/ TWSB/ NYERI/ NAROMORU /36	Water Sector Trust Fund	6 months		Yes	Yes

Status of Projects completion

	Project	Total project Cost	Total expended to date	Completion % to date	Budget	Actual	Sources of funds
1	Naromoru Household Sanitation Project	14,474,611.52	12,444,210.60	95%	14,474,611.52	14,474,611.52	Water Sector Trust Fund

APPENDIX II: PROGRESS ON FOLLOW UP OF AUDITOR RECOMMENDATIONS

Reference No.	Issue from Auditor	Management comments	Focal Point person to resolve the issue	Status	Timeframe:
1.	Assets and Liabilities Hand-Over	The company wrote to the Chief Officer in-charge of Water requesting for valuation	Nyeri County CEC Water & Company General Manager	Not Resolved	Not known
2.	Property, Plant and Equipment	The company availed documents supporting the accuracy of existence of PPE.	Company Management	Resolved	-
3.	Non- Revenue Water	The company had a NRW of 29%.This has actually reduced from 30% in the year 2018/2019 by 1%.This is also anticipated to reduce to 28% in the financial year 2020/2021 if the Conventional Treatment Works under construction will have been completed and handed over to the company by the County Government of Nyeri. Meanwhile, the following measures have been taken to reduce NRW • Rapid Result Initiative was put place for close supervision on servicing of water meters and attendance of bursts and leaks without delay.	Company Management	Resolved	2 years

Reference No.	Issue from Auditor	Management comments	Focal Point person to resolve the issue	Status	Timeframe:
		• Installation of zonal meters • Installation of water strainers • Sealing of all consumer meters • Ensuring 100% metering ratio			

a) Nature of related party relationships

Entities and other parties related to the Fund include those parties who have ability to exercise control or exercise significant influence over its operating and financial decisions. Related parties include management personnel, their associates and close family members. The fund/scheme is related to the following entities:

a) The County Government of Kakamega
b) County Government of Kakamega Ministry of Public Service and Administration
c) Key management;